

Message Text

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71

ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08 CEA-02 DRC-01

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R 041722Z SEP 73

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC 9263

LIMITED OFFICIAL UUE BOGOTA 7282

E.O.11652: NA

TAGS: EGEN

SUBJECT: IFI REACTION TO PROPOSED GOC BUDGET CUTS

REF: BOGOTA T-7169, 8-29-73

1. THE RECENTLY REPORTED GOC POLICY INTENTION TO REDUCE BUDGET EXPENDITURES BY 10 PERCENT (SEE REFTTEL) COULD AFFECT IFI LENDING ACTIVITY IN COLOMBIA THIS YEAR SINCE GOC LOCAL COST CONTRIBUTIONS TO IFI PROJECTS ARE FUNDED THROUGH BUDGET ALLOCATIONS. FINATT CONTACTED RESIDENT REPRESENTATIVES OF THE IDB AND IBRD TO DETERMINE THEIR REACTIONS TO THE BUDGETARY ANNOUNCEMENT. BOTH IFI REPRESENTATIVES MET SEPARATELY WITH THE MINISTER OF FINANCE AND WERE TOLD THAT: (A) THEIR PROJECTS WOULD NOT BE SPECIFICALLY EXEMPTED FROM THE BUDGET CUTS YET TO BE WORKED OUT (B) PROGRAM CUTS OF POSTPONEMENTS TO NEXT YEAR WOULD BE ON A SELECTIVE BASIS AND (C) EXTERNALLY FINANCED PROJECTS WILL BE ACCORDED PRIORITY AND WILL BE REDUCED THE LEAST. BOTH IBRD AND IDB OFFICIALS SHARE OUR VIEW THAT ANNOUNCED EXPENDITURE REDUCTIONS ARE A POSITIVE SIGN. THE CRITICAL QUESTION IS WHETHER REAL REDUCTIONS CAN BE MADE. THE BANK BELIEVES THE GOC IS SERIOUS AND WILL TRY VERY HARD TO KEEP THIS YEARS DEFICIT TO MANAGEABLE PROPORTIONS.

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2. THUS FAR IBRD HAS NOT EXPERIENCED LOCAL COST FINANCING PROBLEMS WITH THE GOC. QUIJANO ATTRIBUTES THIS TO THE FACT THAT MOST OF THEIR LOANS ARE FOR TECHNICAL ASSISTANCE AND IMPORTED COMMODITIES WHICH REQUIRE RELATIVELY LESS LOCAL COST SUPPORT. HE EXPECTS THAT EXCEPT FOR EDUCATION PROGRAMS, WHICH HAVE A HIGHER PROPORTION OF LOCAL COST FINANCING, IBRD PROGRAMS WILL NOT BE SUBSTANTIALLY AFFECTED BY THE GOVERNMENT'S 10 PERCENT REDUCTION PROGRAM. HOWEVER QUIJANO HAS CONCERNED THAT IF THE PRESENT FISCAL TRENDS CONTINUE WORLD BANK LENDING ACTIVITIES WOULD CERTAINLY BE ADVERSELY AFFECTED. HE STATED, THAT IN THIS CONNECTION, THE BANK HAS TOLD THE FINANCE MINISTER THAT IBRD IS LIKELY TO REDUCE ITS LEVEL OF ASSISTANCE IF THE PRESENT FISCAL TRENDS DO NOT IMPROVE IN THE NEXT SEVERAL MONTHS. QUIJANO EMPHASIZED THAT HE DID NOT MEAN TO THREATEN THE GOC BUT WISHED TO INFORM THE MINISTER OF THE PROBABLY CONSEQUENCE OF PRESENT POLICIES.

3. UNLIKE THE IBRD, THE IDB HAS EXPERIENCED LOCAL COST FINANCING PROBLEMS EVEN PRIOR TO THE ANNOUNCED BUDGET REDUCTIONS. IDB OFFICIAL STATED THAT TO MEET THIS YEAR'S PROJECT GOALS THE REQUIRED GOC LOCAL COST CONTRIBUTION WAS 1.2 BILLION PESOS. THE ORIGINAL GOC BUDGET SUBMISSION CONTAINED ONLY .8 BILLION PESOS. HOWEVER HE DID NOT DISCUSS THE POSSIBILITY OF SUPPLEMENTAL BUDGET REQUESTS. IN ANY EVENT THE IDB IS LIKELY TO BE SHORT LOCAL CURRENCY TO KEEP PROJECTS MOVING TO THEIR SATISFACTION. THE IDB IS UNABLE AT THIS TIME TO ASSESS THE IMPACT OF THE ANNOUNCED 10 PERCENT REDUCTION UNTIL THE IMPLEMENTING DETAILS HAVE BEEN ISSUED.

4. PLEASE PROTECT INFORMATION WHICH WAS SUPPLIED ON A CONFIDENTIAL BASIS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, EXPENDITURES
Control Number: n/a
Copy: SINGLE
Draft Date: 04 SEP 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973BOGOTA07282
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: BOGOTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730957/aaaabpww.tel
Line Count: 93
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: BOGOTA T-7169, 8-29-73
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 17 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17-Jan-2002 by martinjw>; APPROVED <08 FEB 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: IFI REACTION TO PROPOSED GOC BUDGET CUTS
TAGS: EGEN, CO, IBRD, IDB
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005